



2000 Annual Report to the
Governor and General Assembly



Jan W. Stem
Chairman



Harold D. Slem
Vice Chairman



Brian L. Bock



Nancy B. Pfeiffer



Herbert C. Clay



Kelly R. Young

MISSION STATEMENT

To enforce the charitable gaming laws of the Commonwealth and prescribe regulations so as to enhance the integrity of the activities, provide for even regulation, and maintain the highest quality charitable gaming environment, free of corrupt, dishonest or unprincipled practices, so as to increase the financial gain of bona fide charities.

ABOUT CHARITABLE GAMING

The Charitable Gaming Commission is a non-general fund agency fully funded by audit fees collected from qualified organizations conducting charitable gaming. The fiscal year 2000 marks the completion of the Charitable Gaming Commission's fourth full gaming year as the statewide agency responsible for the licensing and regulation of bingo, raffles, and pull-tab gaming in Virginia. The General Assembly created the Charitable Gaming Commission in 1995 after a two-year study revealed that little money was actually reaching bona fide charities and that the industry was rife with fraud and embezzlement.

Qualified organizations conducting charitable gaming are classified as either exempt or non-exempt. Non-exempt organizations eligible to conduct charitable gaming in Virginia generally fall into seven categories: fraternal, veterans, religious, educational, charitable, community, and other. Volunteer fire departments and volunteer rescue squads are considered exempt organizations, meaning they are exempt from paying audit fees and from most financial reporting responsibilities. Non-profit organizations that have anticipated annual gross receipts of \$25,000 or less from charitable gaming do not have to obtain permits or file any financial reports with the Commission.

Every December, mandatory annual financial reports are due the Commission for charitable gaming activities for the period October 1 through September 30. Each organization reports its gross gaming receipts and its use of proceeds ("UOP") - the amount of gross receipts disbursed toward lawful religious, charitable, community or educational purposes for which the organization is specifically chartered or organized. By dividing an organization's UOP by its gross receipts, a UOP percentage is derived. State statute requires that all gaming organizations give a certain percentage, depending on the revenue generated during their charitable gaming activities, of their UOP to charitable purposes. Repeated failure to make the prescribed UOP percentage can result in penalties, up to and including loss of their gaming permit.

TO THE GOVERNOR AND MEMBERS OF THE GENERAL ASSEMBLY

The Charitable Gaming Commission was established in 1995 to address major concerns with charitable gaming in the Commonwealth of Virginia. These concerns resulted in attempts to increase the amount of gaming funds contributed to charitable purposes and also to ensure the integrity and honesty of charitable gaming by seeing that it stays as free as possible from fraud, theft, and embezzlement. The Commission has sought to accomplish these goals in the least burdensome manner possible and for the fiscal year 2000, we witnessed a continuation of these ideals.

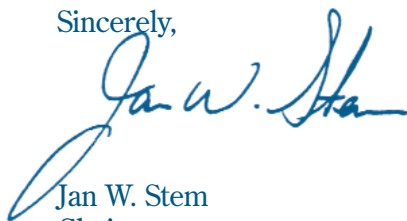
The charitable gaming industry continues to prosper under statewide regulation. In 1995, the amount of money contributed to charitable causes was \$6 million from non-exempt organizations, out of total gross gaming receipts of \$200 million. In 2000, non-exempt organizations reported gross receipts of \$287.8 million with \$38.3 of that figure going toward charitable purposes. The increase in charitable donations from charitable gaming remains high. As a percentage of the gross receipts, the use of proceeds for charitable purposes has increased from approximately 2% before the Commission was established to 10.9% in 1996 to 13.3% in 2000. The Commonwealth of Virginia is now one of the national leaders in charitable giving from charitable gambling. When added to the \$10.4 million used for charitable purposes from total gross revenue of \$43.4 million in 2000 by the 128 exempt organizations (volunteer fire and rescue organizations), the total reported contributions to charitable uses were a record \$48.7 million.

To achieve our goals, the Commission staff continues to oversee the charitable gaming industry. Our audit staff examines the records of gaming organizations to determine that the uses of proceeds are consistent with Virginia statute, and that all proceeds are properly accounted. Our enforcement group continues to investigate numerous allegations of criminal fraud, theft, and embezzlement of charitable gaming funds throughout the Commonwealth. The cases completed in 2000 exhibit that forces continue to prey on the industry from various directions. As this is a cash industry, the importance of attentive oversight with strong law enforcement can not be understated. Be certain that as long as gaming is conducted, the problems with fraud, theft, and embezzlement will be present.

A third goal of the Commission is to seek ways to ease the workload of volunteers working so hard for the gaming organizations. In the summer/fall of 2000, the Commission conducted its most successful training session ever, with over 500 volunteers in attendance at eight sessions held throughout the Commonwealth. In addition, a number of agency's financial reporting forms were developed in interactive formats, now available on the internet, to help ease the workload of those who account for the gaming proceeds.

In short, it was a very successful year for the Commission with respect to its core goals. Credit for these accomplishments must be traced directly to the volunteers of the charitable gaming community who raised funds for their communities, as well as to the oversight that protects them. To let down our guard against the criminal forces at play, however, would do a grave disservice and negate the genuine efforts of our dedicated public servants and our citizens. Continued vigilance is necessary to ensure the honesty and integrity of charitable gaming. To accomplish this, however, requires a strong Charitable Gaming Commission. A strong Commission requires appropriate resources, not to mention proper attention and support from all in the gaming industry and our elected State officials.

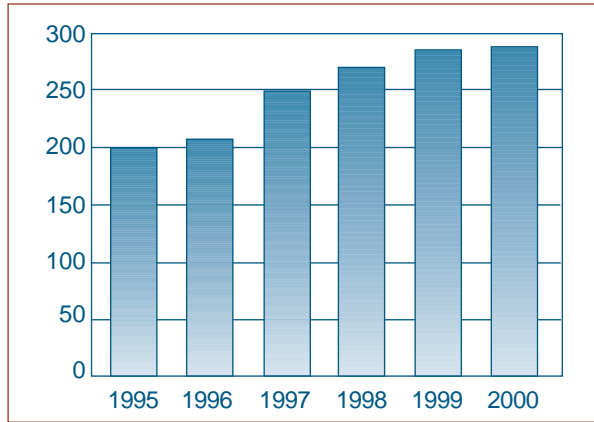
Sincerely,

A handwritten signature in blue ink, appearing to read "Jan W. Stem". The signature is fluid and cursive, with a long, sweeping underline that extends to the left.

Jan W. Stem
Chairman

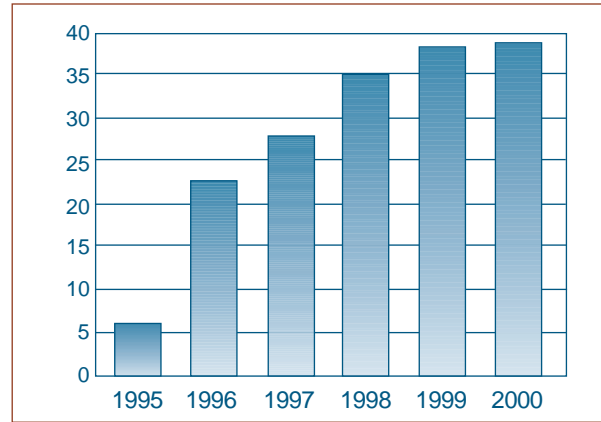
Gross Gaming Receipts

Non-Exempt Organizations In Millions (Unaudited)



Use of Proceeds Dollars

Non-Exempt Organizations In Millions (Unaudited)



WHERE CHARITABLE GAMING DOLLARS GO

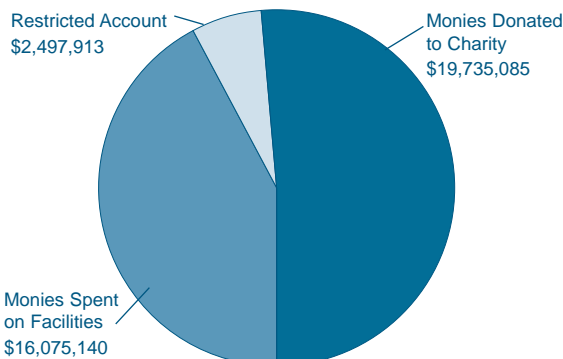
Where did the \$287.8 million of 2000 gross charitable gaming proceeds go? Out of this amount, \$216.8 million was returned in prizes. Prizes made up a little over 75% of all charitable gaming revenue in Virginia during 2000. A little less than half of the remainder, or 11.3% of the balance or \$32.6 million, was spent on expenses. The largest part of expenses, \$28.7 million, was spent on gaming expenses, i.e., charitable gaming supplies, bingo hall rent, insurance, security, janitorial, accounting, advertising, and equipment. In addition to gaming expenses, once an organization has reached its minimum use of proceeds target amount, the permitted organization may elect to use its gaming proceeds for approved business expenses. These include many of the operational costs of the organization that are not spent for religious, charitable, community, or educational purposes. In the fiscal year 2000, organizations opted to use \$3.9 million for such business expenses.

After prizes and expenses, the remainder of the proceeds, \$38.3 million or 13.3% of the whole, was reported as charitable UOP. Religious, charitable, community, or educational purposes take many forms. First, there are the traditional charitable, religious, educational, and community activities sponsored by a non-profit organization. These activities are normally stated in an organization's charter or designated by their Internal Revenue Service classification. Second, organizations that own their facilities or exclusively lease them and open their facilities for use by the community may use proceeds from charitable gaming activities to maintain and improve their facilities. Mortgage payments, real estate taxes, utility costs, and repair and maintenance are among the qualified facility UOP. Third, an organization may also use proceeds as savings within a restricted account for charitable purposes at a later date. The following graphs summarize how fraternal, veterans, religious, educational, charitable, community, and other organizations used their UOP in 2000.

Non-Exempt Organizations - All

Use of Proceeds Dollars - 2000 - Unaudited

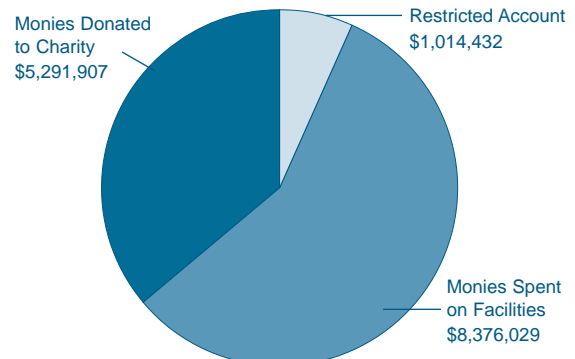
Total: \$38,308,138

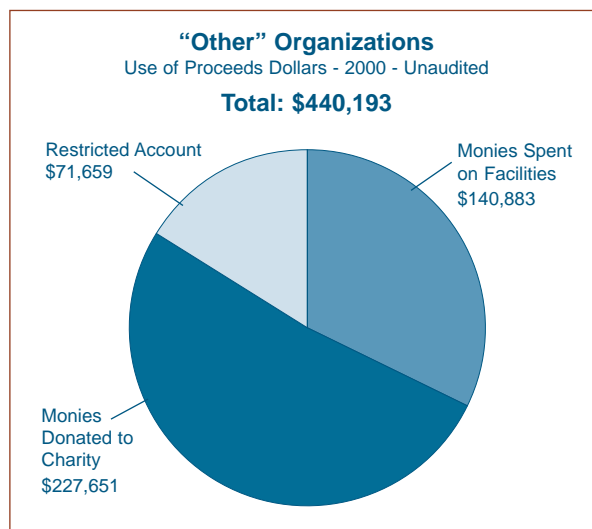
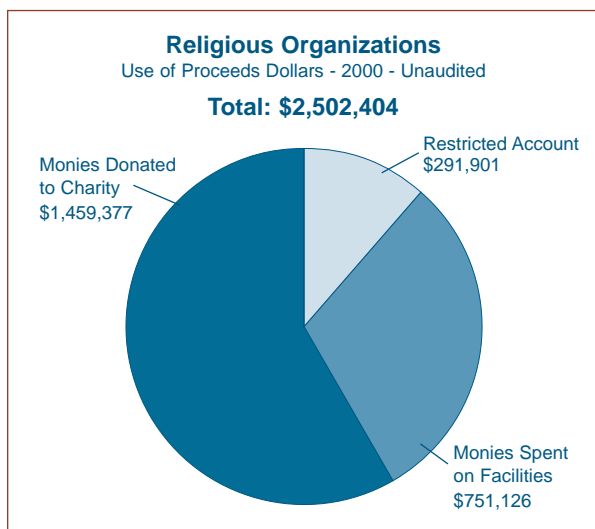
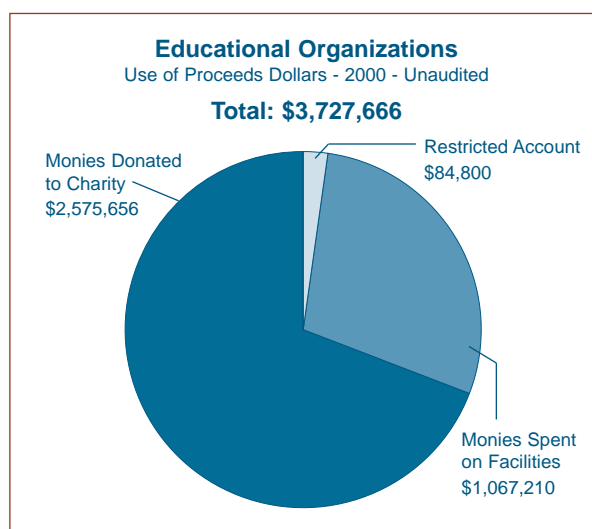
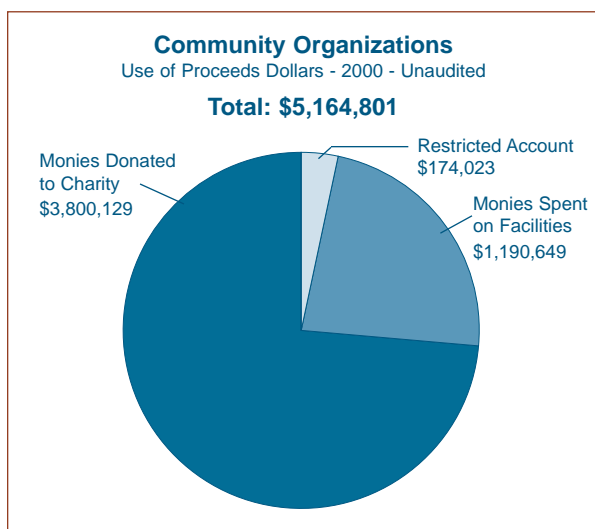
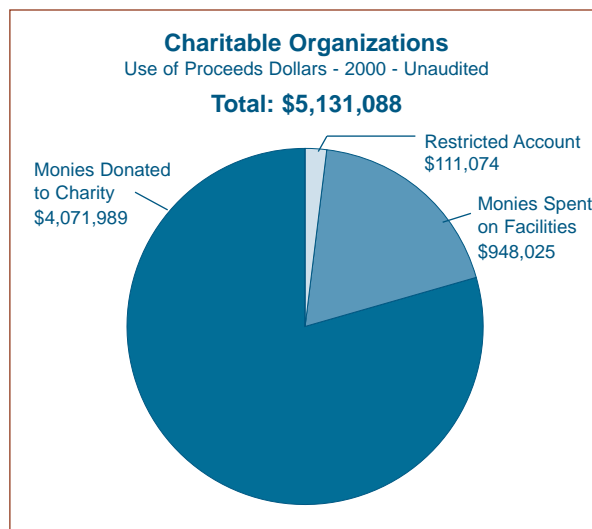
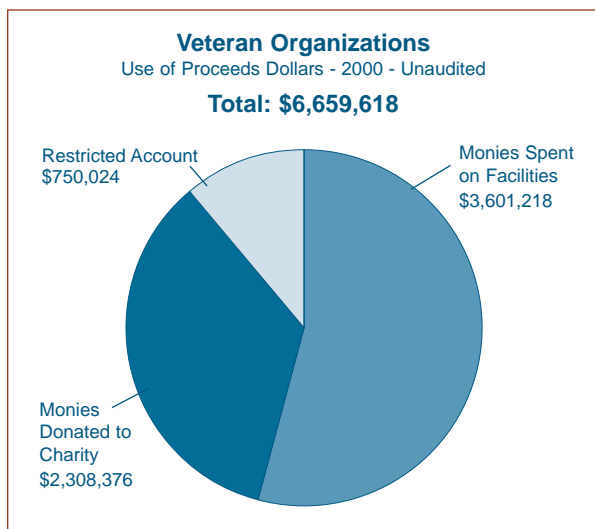


Fraternal Organizations

Use of Proceeds Dollars - 2000 - Unaudited

Total: \$14,682,368





EXEMPT ORGANIZATIONS

Volunteer fire departments and volunteer rescue squads are exempt from most statutory and regulatory rules, but must file an Exempt Organization Notification in order to conduct charitable gaming activities each year. At the end of the year, each exempt organization conducting charitable gaming must file an Exempt Organization Resolution reporting the total gross receipts and total UOP. In fiscal year 2000, the exempt volunteer fire departments and volunteer rescue squads received \$43.4 million in gross receipts from charitable gaming and disbursed \$10.4 million for charitable purposes based upon unaudited financial statements.

ENFORCEMENT

Since inception, the Charitable Gaming Commission's enforcement section has received over a thousand allegations of fraud, theft and embezzlement. Our inspectors and special agents are charged with investigating each of these reports. Here are a few of the 2000 investigations:

Amherst - A third defendant in a case involving a fraternal organization pled guilty to one count of embezzlement. The defendant was sentenced to five years in the custody of the Virginia Department of Corrections, with five years suspended, and must pay \$14,000 in restitution and court costs.

Lynchburg - A former bingo manager and bookkeeper pled guilty to one count each of embezzling from a fraternal lodge's charitable gaming accounts. They each received a two-year suspended sentence and were ordered to pay a total of \$18,700 in restitution.

Virginia Beach - Two volunteers, each working independently, pled guilty to one count each of felony embezzlement and were sentenced to three years in prison, all suspended, and placed on supervised probation for three years. Both were ordered to make restitution and pay court costs.

Virginia Beach - A man was indicted on one felony count of conducting an illegal gambling enterprise.

Vinton/Martinsville - As a result of the joint investigation by the Federal Bureau of Investigation and the Charitable Gaming Commission, a rental waiver totaling \$150,000 was given to five tenants of two commercial bingo halls. The landlord agreed to the waiver of the rent as part of a compromise settlement with federal prosecutors. The investigation into the operations of the two commercial halls looked into violations of the statute involving the relationship between the landlord and the gaming organization.

Norfolk - A volunteer plead guilty to one count of felony embezzlement. She was sentenced to two years in prison, suspended, and ordered to make restitution in the amount of \$2,267 to the religious organization and pay \$400 in court costs.

Martinsville - Owners of a charter bus service pled guilty to violations of the Virginia illegal gambling statutes. Witness testimony established that the operators, who did not have and were not eligible for a charitable gaming permit, sold instant bingo tickets within the Commonwealth during chartered bus trips. As a result of the criminal activity, the Commonwealth, under the money laundering and gambling forfeiture statutes, seized proceeds in excess of \$6,000 and the bus used to conduct illegal gambling activities.

FAIR MARKET RENTAL VALUE STUDY (HOUSE DOCUMENT 27 - 2001)

As mandated by House Bill 811 of the 2000 Session of the General Assembly, the Charitable Gaming Commission prepared a study of fair market rental values of properties utilized by permitted charitable gaming organizations. The study determined that the amount of rent paid by permitted organizations to commercial bingo hall landlords increased the failure rate of an organization to meet their use or proceeds statutory and regulatory responsibility at the rate 65%. The high failure rate implies a correlation between the rental amount paid for the use of commercial bingo halls and the inability of organizations that rent from commercial landlords to meet their statutory and regulatory use of proceeds requirement. With the passage of House Bill 2375 during the 2001 General Assembly session, the Commission is mandated to study a means of determining fair market rental value in commercial bingo facilities where permitted charitable gaming organizations conduct bingo, and report the findings to the General Assembly by November 2001.

BUILDING TOOLS

Along with Commission staff working individually with organizations to assist with their financial reporting, record keeping and general game management, the Commission held training sessions throughout the Commonwealth. The training sessions held during 2000 were the most successful to date. The turnout for the eight-session program, held at various locations throughout the Commonwealth, far exceeded expectations and past attendance. Three of the training sessions were relocated to accommodate a large number of registrants.

In an effort to have resources available electronically, and to meet our obligations under Executive Order 51, the Commission now offers all Commission-prescribed forms via our web site. In addition, all required financial reporting forms are now available in interactive, self-calculating Adobe Acrobat and Excel spreadsheet formats. The reporting forms allow the user to view and fill out the document online and then print the completed document. In addition, the forms are set up to automatically calculate all computations.

2000 FINANCIAL STATEMENT

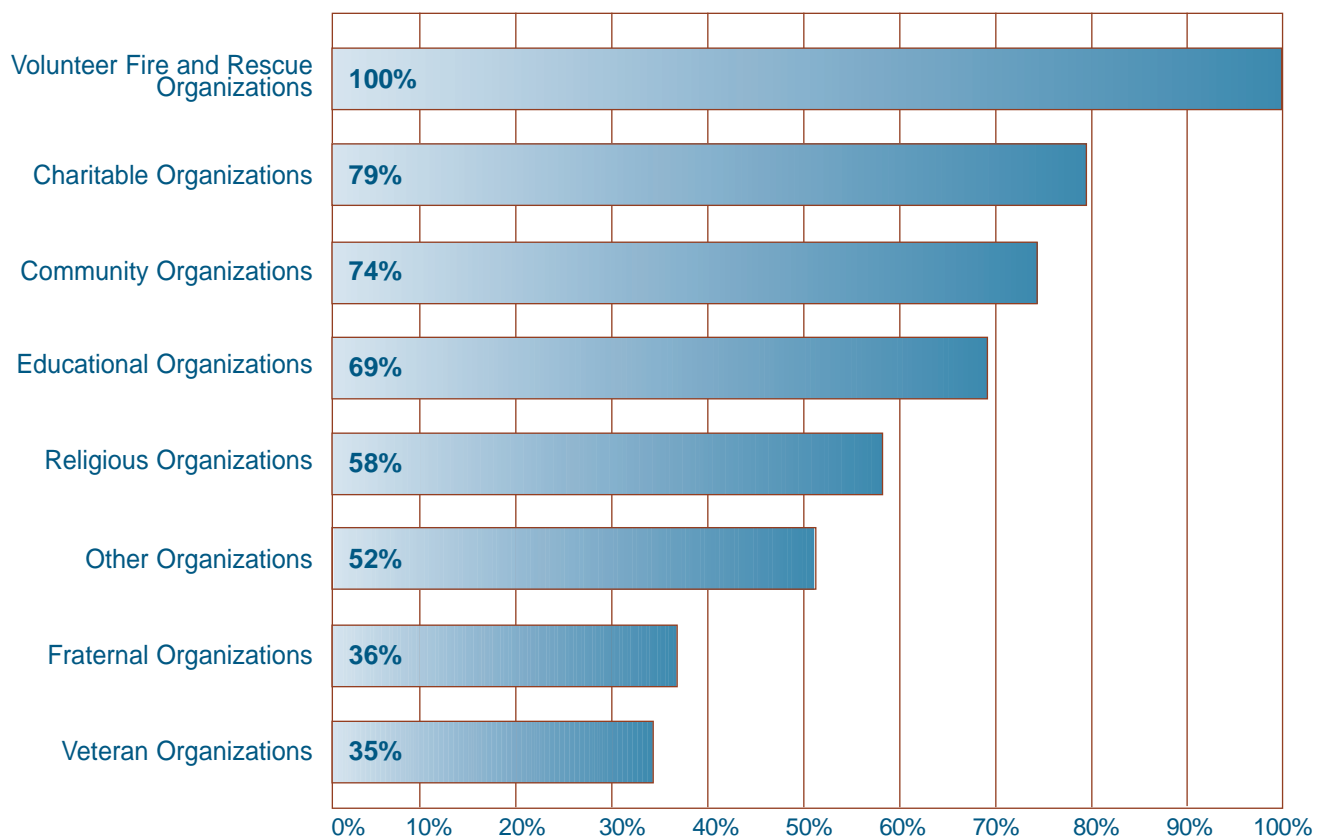
The following financial statement of the Charitable Gaming Commission for the period July 1, 1999 to June 30, 2000 is provided in accordance with 18.2-340.18 (9) of the Code of Virginia.

Revenues	\$2,326,474
Expenditures	\$2,084,428
Operating Balance	\$242,046

LEGISLATIVE RECOMMENDATIONS

The Commission is in the process of evaluating the charitable gaming statute and regulations, and is charged with ensuring that no conflicts exist between the statutory and regulatory rules. In that regard and based upon the passage of recent legislation, the Commission will review the affect of recent legislative changes on the current charitable gaming statute and regulations.

Percentage of Actual Gaming Profit Donated to Charity



Virginia Charitable Gaming Commission

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